Adding Value To a Solid Foundation

1998 Annual Report

MILLENNIUM
ENERGY INC.

MILLENNIUM
ENERGY INC.

ANNUAL MEETING

ASE:MLN

YEAR END: DECEMBER 31

The Annual and Special Meeting of Millennium Energy Inc. will be held Thursday, July 8, 1999 at 2:30 p.m. at the Calgary Petroleum Club, Viking "A" Room, 319 – 5th Avenue S. W., Calgary, Alberta. Shareholders are encouraged to attend and those unable to do so should complete and return their Form of Proxy.

CONTENTS

The most significant event during 1998 was Millennium's $4.1 million acquisition of assets from two limited partnerships, EnerVest Ultra Limited Partnership and EnerVest Resources Fund 1996 ("Resource Fund"). Because the transaction resulted in Millennium issuing approximately 16.6 million shares (more than 100% of the then outstanding common shares), the Corporation's financial statements had to be prepared in accordance with reverse takeover accounting rules. This effectively resulted in Resource Fund taking over Millennium for accounting purposes, and thereby required Millennium to present Resource Fund's financial statements as if they were Millennium's. Accordingly, the data set out in the 1998 financial statements and comparatives to 1997 are in respect of Resource Fund's operations and are not reflective of Millennium's previously reported results for 1997 and the first 10 months of 1998.

Because EnerVest did not track and report certain financial and operating data, current and historical production and commodity figures are solely in respect of Millennium's operations, and do not include the business of Resource Fund. All other data has been presented in accordance with reverse takeover accounting rules.

1998 HIGHLIGHTS

Demonstrated Growth

Millennium Energy Inc. was established as a Junior Capital Pool corporation on the Alberta Stock Exchange in December 1995. The acquisition of its first oil and gas asset was completed in April 1996. Since then, Millennium has demonstrated the potential of its business plan, which is based on growth through acquisition and exploration.

Balancing risk is fundamental to the execution of the Corporation's business plan — acquiring assets which generate solid cash flow while identifying opportunities with high upside potential. With this strategy, Millennium achieved substantial growth in 1998.

	1998	1997	1996
OPERATING			
Production			
Oil (bbl/day)	25	–	–
Gas (mcf/day)	332	330	403
NGL (bbl/day)	7	–	–
Total (boe/day)	65	33	40
Average prices (Cdn.)			
Oil ($/bbl)	15.88	–	–
Gas ($/mcf)	2.13	1.85	1.82
Natural gas liquids ($/bbl)	8.10	–	–
Oil Equivalent ($/boe)	17.77	18.50	18.20
MARKET			
Shares outstanding (average)	15,774,489	7,697,452	7,500,000
Shares outstanding (year-end)	25,897,959	9,250,000	7,500,000
Share price			
High ($)	0.30	0.28	0.25
Low ($)	0.11	0.13	0.11
Close ($)	0.20	0.17	0.24
Trading volume	654,000	951,500	1,087,500
Trading value ($)	160,636	209,132	193,567

MLN

Message to the Shareholders

1998 was an important year in the development of Millennium Energy Inc. Activities during the year will prove to be pivotal to the future growth of the Corporation. On a foundation of solid cash flow, Millennium is building a balanced portfolio of assets in Alberta and Saskatchewan and participating in its first international project.

Substantial Acquisitions from EnerVest

The highlight of 1998 was the acquisition of a diversified portfolio of oil and gas assets managed by EnerVest Resource Management Ltd. ("Enervest"). This $4.1 million acquisition, announced in March and closed in October, included existing production and properties with exploration and development potential in Western Canada.

The EnerVest properties provide excellent opportunities for Millennium to establish one or more core areas through swaps, purchases or other rationalization initiatives while providing stable cash flow.

The purchase price was satisfied by the issuance of 16.6 million common shares at $0.25 per share. In turn, the vendors, two limited partnerships managed by EnerVest, distributed the new Millennium shares to the individual limited partners. This transaction not only resulted in a dramatic increase in Millennium's asset base, it put Millennium shares in the hands of almost a thousand new shareholders, who now have the opportunity to participate in Millennium's domestic and international energy projects.

As Millennium was not a reporting issuer in the Province of Ontario when the transaction was completed and the majority of the EnerVest limited partners were resident in Ontario, the Corporation filed a non-offering prospectus with the Ontario Securities Commission on December 24, 1998. As a result, Millennium became a reporting issuer in Ontario and the new shares held by Ontario residents will become free trading on December 23, 1999. As Millennium is a reporting issuer in Alberta and British Columbia, shares issued to EnerVest limited partners who are resident in those jurisdictions are now free trading.

First International Joint Venture

Shortly after completing the EnerVest acquisition, Millennium received confirmation that it and its partner, Mera Petroleums Inc., had been awarded a significant exploration concession in Colombia. Located in the oil and gas rich Guajira region of northern Colombia, the concession covers 320,000 acres (the equivalent of 500 sections in Western Canada). It represents an exciting opportunity for Millennium which has a two-thirds interest in the project. With the introduction of a new, more favourable royalty regime, Millennium

and its partner are finalizing plans for the first phase of activities which include the review of an extensive geophysical database.

Exploration Results in Alberta

Although the Corporation's growth in 1998 came primarily from acquisitions, Millennium did undertake a modest exploration program, resulting in one gas well at Craigend and one dry hole at Rumsey. Millennium originally contemplated pursuing other prospects in the Lac la Biche area; however, acquisitions have shifted the corporate focus to other projects.

North Central Alberta Acquisition

In February 1999, Millennium purchased a five percent interest in 16 sections of land near Girouxville in north-central Alberta from an independent exploration and production company for $900,000. Millennium's decision to acquire an interest in the area was based on the significant upside potential of the project.

In March 1999, the Corporation and its partners drilled a new well into the existing two-well pool. The new well tested at more than 500 bbl/d of light oil, although current production is temporarily constrained to 250 bbl/d. Additional wells are planned later in the year. Capital expenditures during 1999 are expected to be approximately $4.3 million (gross). The purchase price as well as Millennium's share of the development costs will be funded from cash flow and the Corporation's credit facilities.

Outlook for the Future

Steady production from Millennium's Alberta and Saskatchewan assets and the potential of the Corporation's Girouxville development project represent a highly favourable combination. Together with the Colombian play, Millennium's shareholders have exposure to a number of projects with excellent potential. We look forward to reporting on our progress on these projects in the coming year.

Martin Hislop
President & Chief Executive Officer

Calgary, Alberta
June 4, 1999

REVIEW OF OPERATIONS

Major Properties, Western Canada

Chauvin, Alberta

Millennium owns a 5% working interest subject to various royalties in 1,640 gross acres of land in the Chauvin area, located about 150 miles southeast of the city of Edmonton. Drilling on the Chauvin lands began in 1971 with the discovery of the Sparky H pool in the well at LSD 6-19-42-1 W4M. Pressure maintenance by water injection into the Sparky H pool commenced in January 1997 and water is still being injected. During December 1998, gross oil production from the 13 producing wells averaged 530 bbl/d with a 95% water cut. The wells in the Chauvin Sparky H pool are operated by Enerplus Resources Corporation.

Hayter, Alberta

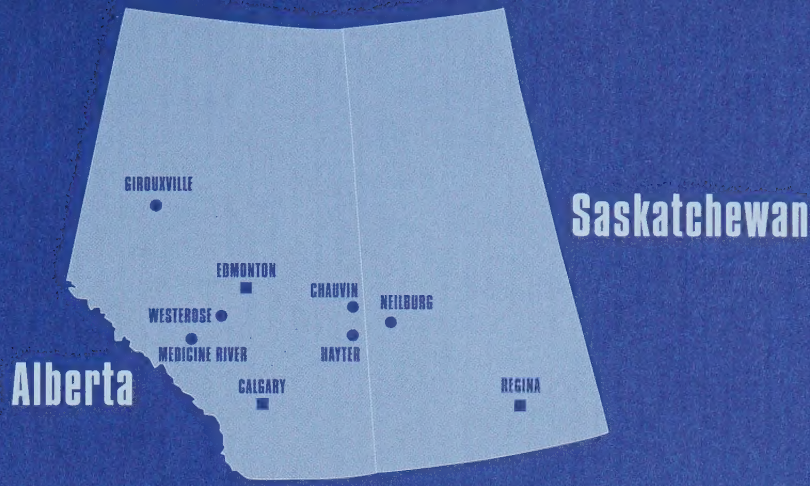
Millennium has acquired various working interests (ranging from 0.1812% to 1.08%) in sections 24, 25, 26 and 34-40-1 W4M over 2,120 gross acres of land. Drilling on the Hayter lands began in the late 1970s and continued to 1988 using vertical wells to exploit the Sparky and Dina sands. Beginning in 1991, horizontal wells have been drilled exclusively to improve recovery from the extensive Dina formation.

Millennium's lands include 119 producing oil wells (32 vertical and 87 horizontal) and eight water disposal wells. Gross production from these lands during December 1998 was 9,950 bbl/d of oil and 154,395 bbl/d of water (93.9% water cut). Union Pacific Resources Inc. is the operator of the wells in sections 24, 25 and 34-40-1 W4M. Fletcher Challenge Energy is the operator of the wells in section 26-40-1 W4M. Additional horizontal drilling is planned in 1999 by the operators in this area.

Medicine River, Alberta

Millennium has various non-operated working interests in 11 producing oil wells and eight producing gas wells. Oil and gas production is obtained from the Viking, Glauconitic, Ostracod, Lower Mannville/Basal Quartz, Jurassic, Pekisko, and Elkton-Shunda zones.

Production is primarily operated by Enerplus Resources Corporation. In the month of December 1998, gross production from the lands was 1.0 mmcf/d of gas and 320 bbl/d of oil. Two infill wells were drilled in the Jurassic 'O' pool in the fourth quarter of 1998. One well has been completed as a producing oil well. The second well has potential in both the Elkton and Jurassic zones; it will be completed by year end 1999.



Westerose, Alberta

The Westerose property is located approximately 50 miles north of Red Deer. Millennium has interests varying between 2.5% and 8.0% in petroleum and natural gas leases covering the Upper Mannville, Lower Mannville, Glauconitic and Basal Quartz gas pools and the Viking oil pool. Crestar Energy Inc. operates the majority of the production; Enerplus Resources Corporation and Rigel Oil and Gas Ltd. operate the remaining wells.

At present, there are 17 producing gas wells and two oil wells. The area includes interests in 13,280 gross acres of land, all of which have been developed. Gross production for the month of December 1998 was 25.7 mmcf/d of gas and 47 bbl/d of oil.

Neilburg, Saskatchewan

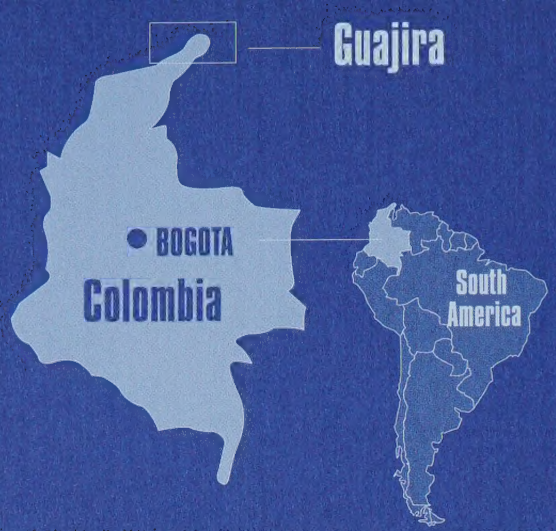
Various working interests are held by Millennium in the Neilburg area, located approximately 30 miles southeast of the city of Lloydminster. To date, 79 wells have been drilled on the lands. Drilling began in mid-1978 and continued until 1994. Proven developed producing oil reserves have been assigned to 15 wells. Of the 79 wells drilled in the area, five are horizontal. Three of the horizontal wells have been assigned reserves.

The operator of the majority of the wells is Enerplus Energy Corporation. None of these lands is unitized and, to date, pressure maintenance by water flooding has not been implemented in any of the pools. Primary producing zones in the area are the McLaren, Mannville and Colony formations. During December 1998, oil production was 140 bbl/d (gross) with a water cut of approximately 46%.

Girouxville, Alberta

Millennium has a 5% interest in 16 sections of land in north-central Alberta, near Girouxville, which it acquired for approximately $900,000 cash in February 1999. Because of confidentiality obligations and the ongoing nature of this project, Millennium and its partners have agreed to keep confidential specific detail regarding the location.

In March 1999, the Corporation and its partners drilled a new well into the existing two-well pool. The new well tested at more than 500 bbl/d of light oil, although current production is temporarily constrained to 250 bbl/d. Additional wells are planned later in the year. Capital expenditures during 1999 are expected to be approximately $4.3 million (gross). The purchase price as well as Millennium's share of the development costs will be funded from cash flow and the Corporation's credit facilities.



Colombia, South America

In late 1998, Millennium and a Canadian partner, Mera Petroleums Inc., received confirmation that they had been granted a large exploration concession in the Guajira area of Colombia, South America, covering approximately 320,000 acres. The concession lies in the northern Colombia desert, just West of Venezuela's prolific Maracaibo Basin and East of Texaco's large offshore Chuchupa gas field. Millennium has a two-thirds interest in this project.

ECOPETROL, the Colombian national oil and gas company, estimates the Guajira basin holds 6.0 tcf of natural gas reserves and 1.5 billion barrels of oil. Millennium's concession is estimated to potentially contain at least 2.0 tcf of natural gas, which is the target of the joint venture's exploration and development program.

Millennium and Mera believe the Guajira play is ideally suited for rapid exploitation of known gas reserves.

A new gas pipeline was recently constructed through the middle of the concession, facilitating delivery to markets in the central and southern areas of the country. The government of Colombia is undertaking a massive gasification program. Markets and gas marketers are in place for gas from the Guajira basin to be directed to commercial use or for co-generation of electricity.

Under the agreement with ECOPETROL, the joint venture is committed to spend approximately US$2.1 million in the first two years on reprocessing seismic, shooting new seismic, and drilling a horizontal well through an existing well bore. Success in this first phase will lead to a comprehensive multi-year exploration and development program. The two companies' total investment over the first eight years of the program is estimated at US$14.3 million.

Reserves & Landholdings

At January 1, 1999

RESERVE VOLUMES	Proved	Proved + Probable	Proved + 1/2 Probable
Oil (mbbl)	237	364	300
Gas (mmcf)	2,509	2,516	2,513
NGL (mbbl)	83	84	84
Total (mboe)	571	699	635

RESERVE VALUES (m$)	Proved	Proved + Probable	Proved + 1/2 Probable
Undiscounted	6,614	7,885	7,249
NPV 10%	4,147	4,993	4,570
NPV 12%	3,876	4,665	4,270
NPV 15%	3,538	4,252	3,895

RESERVE RECONCILIATION*	Oil (mbbl)	Gas (mmcf)	NGL (mbbl)	Total (mboe)
Reserves at January 1, 1998	0	431	0	43
Acquisitions	360	2,025	93	656
Drilling & development	0	436	0	44
Divestitures	5	0	0	5
Production	55	286	9	93
Revisions	0	(93)	0	(9)
Reserves at January 1, 1999	300	2,513	84	635

• Proved plus one-half probable

PRICE FORECAST*	Exchange Rate $US/$Cdn	WTI Oil $US/bbl	Edmonton Light Oil $Cdn/bbl	Natural Gas $Cdn/ mmbtu
1999	0.66	15.00	21.50	2.15
2000	0.69	17.00	23.50	2.25
2001	0.71	19.00	25.50	2.25
2002	0.73	20.00	26.00	2.30
2003	0.74	20.50	26.50	2.40
2004	0.74	21.00	27.00	2.50
2005	0.74	21.50	27.50	2.60
2006	0.74	22.00	28.25	2.65
2007	0.74	22.50	29.00	2.70
2008	0.74	22.75	29.50	2.75
Thereafter	n/a	Prices escalate at 2% per annum		

• Price forecast supplied to Sproule Associates Limited by Millennium Energy Inc.

LAND HOLDINGS	Gross Acres	Net Acres
DEVELOPED LANDS		
Alberta	24,332.27	1,585.46
Saskatchewan	3,520.70	797.18
Total Developed	27,852.97	2,382.64
UNDEVELOPED LANDS		
Alberta	17,009.69	1,783.09
Saskatchewan	1,625.03	376.61
Total Undeveloped	18,634.72	2,159.70
TOTAL DEVELOPED AND UNDEVELOPED	46,487.69	4,542.34

Year 2000 Considerations

Millennium is aware of the issues associated with the programming code in existing computer systems as the millennium (year 2000) approaches. The "year 2000" problem is pervasive, as many computer operations may be affected by the rollover of the two-digit value to 00. The issue is whether computer systems will properly recognize date-sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail.

The Corporation is utilizing both internal and external resources to identify, correct or reprogram, and test its systems for year 2000 compliance. It is anticipated that all potential problems will be identified by July 31, 1999, allowing adequate time for testing and modifying systems. Costs for identifying and correcting all problems will be negligible. To date, confirmations have been received from the operators of Millennium's properties, its suppliers, services providers and others with which it has business relations that plans are being developed to address processing of transactions for the year 2000. At present, Millennium believes that year 2000 issues will not pose significant operations problems.

Management's Discussion & Analysis

The most significant event during 1998 was Millennium's $4.1 million acquisition of assets from two limited partnerships, EnerVest Ultra Limited Partnership and EnerVest Resources Fund 1996 ("Resource Fund"). Because the transaction resulted in Millennium issuing approximately 16.6 million shares (more than 100% of the then outstanding common shares), the Corporation's financial statements had to be prepared in accordance with reverse takeover accounting rules. This effectively resulted in Resource Fund taking over Millennium for accounting purposes, and thereby required Millennium to present Resource Fund's financial statements as if they were Millennium's. Accordingly, the data set out in the 1998 financial statements and comparatives to 1997 are in respect of Resource Fund's operations and are not reflective of Millennium's previously reported results for 1997 and the first 10 months of 1998.

Because EnerVest did not track and report certain financial and operating data, current and historical production and commodity figures are solely in respect of Millennium's operations, and do not include the business of Resource Fund. All other data has been presented in accordance with reverse takeover accounting rules.

Production & Commodity Prices

Millennium averaged 65 boe/d of production during 1998, consisting of 332 mcf of gas, 25 bbl of oil and 7 bbl of NGL, compared with 33 boe/d in 1997. As a result of closing the EnerVest acquisition in late 1998, the benefits of the increased production did not have a full year's impact. Fourth quarter production actually averaged 196 boe/d and Millennium exited the year at approximately 273 boe/d.

During 1998, Millennium received an average price of $2.13 per mcf for its gas, compared to $1.85 in 1997. Oil and NGLs yielded prices of $15.88 and $8.10 per bbl, respectively. Because the Corporation's production consisted entirely of gas prior to the EnerVest acquisition, there are no 1997 comparatives for oil and NGL.

Revenue & Expenses

Because of the issues outlined above, an analysis and discussion of the balance of Millennium's financial results has not been provided.

Liquidity & Capital Resources

Millennium has a $2 million credit facility with National Bank of Canada (NBC) which bears interest at NBC prime rate plus 3/4% and is secured by a General Assignment of Book Debts and a Floating Charge Debenture on all of the assets of the Corporation. The limit of this facility has increased from time to time to reflect the growth in the Corporation's asset base. At December 31, 1998, Millennium's indebtedness to NBC amounted to $760,000.

Should circumstances warrant, Millennium intends to use the balance of its credit facility to acquire additional assets.

Management's Report

Millennium Energy Inc. is responsible for the preparation of the financial statements and the preparation of all other financial information included in the annual report. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and, where applicable, amounts based on management's best estimates and judgement.

Management has established procedures and systems of internal control designed to provide reasonable assurance that assets are safeguarded and that accurate financial information is produced in a timely manner.

The Board of Directors is responsible for reviewing and approving the financial statements and ensuring that management fulfills its responsibilities for financial reporting. PricewaterhouseCoopers LLP, an independent firm of Chartered Accountants appointed by the shareholders of Millennium Energy Inc., have audited the combined financial statements in accordance with generally accepted auditing standards. PricewaterhouseCoopers have full and free access to the Audit Committee.

Martin Hislop
President & C.E.O.

Steve Cloutier
Executive Vice President & C.O.O.

Calgary, Alberta
June 4, 1999

Auditor's Report

To the Shareholders of
Millennium Energy Inc.

We have audited the balance sheet of Millennium Energy Inc. as at December 31, 1998 and the statements of operations and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

The 1997 financial statements were audited by other auditors whose audit report dated April 28, 1998 was unqualified.

PricewaterhouseCoopers LLP

Chartered Accountants
May 27, 1999

Balance Sheet

December 31	1998	1997
Assets		
Current assets		
Cash	$ 42,947	$ 449,624
Accounts receivable	601,643	285,094
Prepaid expenses	24,717	2,850
	669,307	737,568
Investments in shares	-	2,339,563
Petroleum and natural gas properties (Note 3)	3,867,933	5,371,411
Assets to be distributed to former partners (Note 1)	2,232,792	-
	6,100,725	7,710,974
	$ 6,770,032	$ 8,448,542
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 269,715	$ 416,065
Current portion of long-term debt	-	1,350,000
	269,715	1,766,065
Long-term debt (Note 4)	760,000	-
Provision for future site restoration	88,124	59,846
	1,117,839	1,825,911
Shareholders' Equity		
Share capital (Note 5)	3,572,559	2,623,058
Other equity (Note 1)	2,232,792	3,999,573
Deficit	(153,158)	-
	5,652,193	6,622,631
	$ 6,770,032	$ 8,448,542

Approved by the Board [signature] Director Steve Cloutier Director

Statement of Operations and Retained Earnings

Year ended December 31	1998	1997
Revenues		
Oil and gas sales, net of royalties	$ 1,177,023	$ 1,804,294
Expenses		
Operating expenses	624,905	946,290
General and administrative	81,523	89,351
Management fees	47,600	99,481
Interest	81,515	36,386
Depletion, depreciation and amortization	1,002,211	963,994
Site restoration	24,630	-
	1,862,384	2,135,502
Loss from oil and gas operations	(685,361)	(331,208)
Write-down of petroleum and natural gas properties	-	(1,270,740)
Loss from assets to be distributed to partners (write-down of flow-through shares $1,432,813 and other gain of $159,952)	(1,272,861)	-
Loss before taxes	(1,958,222)	(1,601,948)
Deferred income taxes (recovery)	(38,283)	-
Net loss for the year	(1,919,939)	(1,601,948)
Deficit at beginning of the year	-	-
Other equity at beginning of year	3,999,573	8,783,039
Distributions	-	(523,311)
Other equity adjustments	949,501	(35,149)
Transferred to share capital	(949,501)	(2,623,058)
Other equity	(2,232,792)	(3,999,573)
Deficit at end of year (Note 1)	$ (153,158)	$ -
Loss per share	$ (0.12)	$ (0.13)

Statement of Changes in Financial Position

Year ended December 31	1998	1997
Cash provided by (used in) operating activities		
Net loss for the year	$ (1,919,939)	$ (1,601,948)
Items not affecting cash		
Depletion, depreciation and amortization	1,002,211	963,994
Write-down of flow-through shares	1,432,813	-
Write-down of petroleum and natural gas properties	-	1,270,740
Other gain	(159,952)	-
Deferred income tax recovery	(38,283)	-
Site restoration costs	24,630	-
	341,480	632,786
Net change in non-cash working capital	(619,340)	(528,866)
	(277,860)	103,920
Cash provided by (used in) investing activities		
Acquisition of EnerVest Ultra and Millennium (Note 1)	(949,501)	-
Acquisition of oil and gas properties	(63,613)	(1,291,324)
Proceeds on disposition of oil and gas properties (including $839,045 transferred to assets to be distributed)	1,877,745	-
Investment in shares and transfer to assets to be distributed	906,750	(256,250)
Assets to be distributed to former partners (oil and gas properties $839,045 flow through shares and other assets of $1,393,747, net of losses attributed to partners of $760,878)	(1,471,914)	-
Site restoration costs	(6,742)	(9,751)
	292,725	(1,557,325)
Cash (used in) provided by financing activities		
Offering costs	-	(35,149)
(Decrease) increase in bank loan	(1,350,000)	1,350,000
Bank loan payments	(21,043)	-
Increase in share capital, net of issue costs for assets	949,501	-
Distributions to Limited Partners	-	(523,311)
	(421,542)	791,540
Decrease in cash and term deposits	(406,677)	(661,865)
Cash and term deposit, beginning of year	449,624	1,111,489
Cash and term deposit, end of year	$ 42,947	$ 449,624

Notes to Financial Statements

DECEMBER 31, 1998

1 Corporate items

a) Incorporation

The Company was incorporated under the Business Corporations Act of Alberta as 638715 Alberta Ltd. on January 12, 1995 and changed its name to Millennium Energy Inc. on May 30, 1995. The common shares are listed on the Alberta Stock Exchange and were initially posted for trading on December 1, 1995.

b) Acquisition

On September 11, 1998, the Company closed in escrow the acquisition of a number of oil and gas properties in Alberta and Saskatchewan from two unrelated limited partnerships for a deemed value of $4,149,490, subject to adjustments, payable by the issuance of 16,597,959 shares at a price of $0.25 per share. 12,759,151 shares were issued to EnerVest Resource Fund 1996 ("Resource Fund") and 3,838,808 were issued to EnerVest Ultra Limited Partnership ("EnerVest Ultra"). The escrow was released on October 26, 1998. This transaction is recorded as a reverse take-over of Millennium by the dominant partnership with Millennium assets valued at fair value and the acquired properties being valued at cost. The acquisition of the second partnership's assets was treated as a purchase and the assets were recorded at fair market value.

Reverse take-over accounting results in the actual number of shares issued and outstanding being those of the acquiree and the value of the share capital being that of the acquiror. The share capital at the conclusion of the transactions will be 25,897,959 common shares issued and valued at $3,572,559.

The October 26, 1998 Summarized Balance Sheet reflecting the recording of this transaction is summarized as follows:

	Resource Fund(1)	EnerVest Ultra(1)	Millennium(2)	Total
Current assets	$ -	$ -	$ 480,302	$ 480,302
Petroleum and natural gas properties	2,698,058	386,000	1,258,643	4,342,701
Assets to be distributed	2,232,792	-	-	2,232,792
Total assets	$ 4,930,850	$ 386,000	$ 1,738,945	$ 7,055,795
Current liabilities	$ -	$ -	$ 345,728	$ 345,728
Long-term debt	-	-	781,043	781,043
Provision for site restoration	75,000	10,390	-	85,390
Deferred income taxes	-	-	38,283	38,283
	75,000	10,390	1,165,054	1,250,444
Share capital	2,623,058	375,610	573,891	3,572,559
Equity to be distributed	2,232,792	-	-	2,232,792
Total liabilities	$ 4,930,850	$ 386,000	$ 1,738,945	$ 7,055,795

[1]The values for the Resource Fund properties are the amounts from its October 26, 1998 unaudited balance sheet at original amortized cost. The value for the EnerVest Ultra properties is the estimated fair value.

[2]The value of Millennium's properties at October 26, 1998 is the estimated fair value of those assets.

The operations for Resource Fund are recorded for the year ended December 31, 1998 and the operations for the EnerVest Ultra properties and Millennium are from their purchase dated October 26, 1998.

The shares issued to the Resource Fund of 12,759,151 are deemed to be the opening number of shares issued in determining the weighted number of shares outstanding for 1998 and are deemed to be the shares outstanding for 1997.

All retained earnings or losses were deemed to be distributed to partners and the accumulated deficit is the result of operations from October 26, 1998.

At a meeting of the Limited Partners of Resource Fund duly convened on April 20, 1999, an extraordinary resolution was approved to dissolve the Limited Partnership in an orderly manner. The General Partner distributed, in specie, each Limited Partner's pro-rata share of Millennium Energy Inc. shares on January 5, 1999.

The General Partner will dispose of the remaining oil and gas properties and either dispose of the flow-through shares or distribute them in specie, on a pro-rata basis, to the Limited Partners. The General Partner will pay all expenses of liquidation and all debts and liabilities of the Partnership and distribute the remaining cash balance to the Limited Partners on a pro-rata basis.

All assets that are to be distributed have been accumulated in assets to be distributed to former partners on the balance sheet and treated as discontinued items.

2 Significant accounting policies

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada. The more significant of the Company's accounting policies are:

a) **Petroleum and natural gas properties and equipment and royalty interest**
The Company follows the full cost method of accounting in accordance with the guideline issued by the Canadian Institute of Chartered Accountants whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized in cost centres and charged against earnings as set out below. Such costs include royalty acquisition, land acquisition, geological and geophysical, carrying charges of non-producing properties and costs of drilling both productive and non-productive wells.

Gains or losses are not recognized upon disposition of oil and gas properties or royalty interests unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion in a cost centre of 20% or more.

Depletion is provided on costs accumulated in producing cost centres using the unit of production method. For purposes of the depletion calculation, gross proved oil and gas reserves, as determined by outside consultants, are used and converted to a common unit of measure on the basis of their approximate energy content.

The net carrying costs of the Company's interests in each cost centre is limited to an estimated recoverable amount. This amount is the aggregate of estimated future net revenues from proved reserves and the costs of undeveloped properties, net of impairment allowances. An enterprise ceiling test limits the total net carrying costs, net of deferred income taxes and future site restoration cost provisions, to the aggregate of the estimated future net revenues for all cost centres, less estimated future general and administrative costs, financing costs and income taxes. Future net revenues are calculated using prices in effect at the Company's year end without escalation or discounting.

b) **Joint venture accounting**
Substantially all of the Corporation's petroleum and natural gas exploration and production activities are conducted jointly with others and the accounts reflect the Corporation's proportionate interest in such activities.

c) **Flow-through share accounting**
The lost tax benefits resulting from renouncing certain capital expenditure tax deductions to shareholders is recorded as a reduction of capital assets and share capital and a credit to deferred income taxes.

d) **Earnings (loss) per share**
Earnings (loss) per share is calculated using the weighted average number of shares outstanding for the year (see Note 1).

e) **Use of estimates**
The amounts recorded for depletion and depreciation of petroleum and natural gas properties and equipment and the provision for future site restoration and reclamation costs are based on estimates. The ceiling test calculation is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

3 Capital assets

December 31	1998	1997
Petroleum and natural gas assets	$ 7,174,437	$ 7,675,704
Accumulated depletion	(3,306,504)	(2,304,293)
	$ 3,867,933	$ 5,371,411

4 Bank indebtedness including long-term debt

December 31	1998	1997
Bank loan	$ 760,000	$ 1,350,000
Less: Current portion	-	(1,350,000)
	$ 760,000	$ -

The Company has a demand revolving credit facility in the amount of $2,000,000 pursuant to a commitment letter dated May 11, 1998, which was effective on October 26, 1998 when the Company acquired additional oil and gas properties. It is reviewed annually by the bank in April and bears interest at prime rate plus 3/4% per annum (8% and 6% at December 31, 1998 and December 31, 1997 respectively). There is also a $250,000 facility for interest rate and commodity swaps. The facility is secured by a general assignment of book debts registered in the Province of Alberta and a registered $5,000,000 floating charge debenture on all assets of the Company, with a fixed charge on all main producing properties. Principal payments of $15,000 were made monthly until October 26, 1998 when the demand credit facility became effective, at which time only interest was payable monthly.

At December 31, 1998, the total indebtedness was $760,000 (see Note 9).

5 Share Capital

a) Authorized

Unlimited number of Class A voting shares
Unlimited number of Class B, C, D and E preferred shares, issuable in series

The Directors of the Company are authorized to determine the designation, rights, privileges, restrictions and conditions attaching to each Class of the preferred shares.

b) Issued and outstanding

	Shares	Amount
Shares issued to Resource Fund - the continuing entity and the opening share capital - January 1, 1998	12,759,151	$ 2,623,058
Shares issued to purchase EnerVest Ultra - October 26, 1998	3,838,808	375,610
Shares deemed issued to purchase Millennium - October 26, 1998	9,300,000	573,891
Shares - December 31, 1998	25,897,959	$ 3,572,559

The share capital has been presented using reverse take-over accounting where Resource Fund is deemed to be the acquiror or continuing entity and Millennium is deemed to be the acquiree company. Under this accounting, the shares issued to Resource Fund are valued at the unit holders' equity in Resource Fund's cost financial statements and the original number of shares of Millennium being deemed to be issued to purchase Millennium with the value being estimated fair value (see Note 1).

During 1997, Millennium Energy Inc. closed a private placement of 1,500,000 units at a price of $0.25 per unit, each unit comprised of one flow-through Class A share and one warrant to acquire a flow-through Class A share for an aggregate consideration of $375,000. The warrants were exercisable at a price of $0.35 per Class A share until December 20, 1998. The warrants expired.

The net proceeds of this offering were used to incur Canadian exploration expenses and Canadian development expenses, which will be renounced to the purchasers.

c) Options

The Company has established a Directors', Management and Employees' Stock Option Plan. At December 31, 1997 there were 220,000 options outstanding at an exercise price of $0.10 per share and 30,000 options outstanding at an exercise price of $0.25 per share, which expire July 1, 2000. At December 31, 1998, there were 898,000 options outstanding at exercise prices ranging from $0.10 to $0.25, expiring from July 1, 2000 to August 25, 2003.

6 Financial Instruments

The Company's financial instruments that are included in the balance sheet are comprised of cash, accounts receivable, and all current liabilities and long-term borrowings.

a) Fair values of financial assets and liabilities

The fair values of financial instruments that are included in the balance sheet, including long-term borrowings, approximate their carrying amount due to the short-term maturity of those instruments and the floating prime rate applied to long-term borrowings.

b) Credit risk

A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks.

c) Interest rate risk

At December 31, 1998 the increase or decrease in net earnings before income tax for each one percent change in interest rates on floating rate debt amounts to $7,600.

7 Income taxes

The income tax provision differs from the calculated tax obtained by applying the combined Canadian Federal and Provincial corporate tax rate to the income before income taxes. These differences are accounted for as follows:

	1998
Net loss before taxes	$ (1,958,222)
Less: Amounts applicable to limited partners	1,805,064
Accounting taxable loss and deficit at end of year	(191,441)
Statutory rate	44.62%
Expected tax recovery	(85,420)
Increase (decrease) resulting from	
resource allowance	(500)
Loss carryforwards not recorded	38,558
Crown royalties	9,079
Actual income tax recovery - deferred	$ (38,283)

In 1997 and until October 26, 1998, the entity operated as a partnership with all income tax items being for the account of the partners.

The Company has approximately $5,100,000 of unused tax pools available to be used to offset future taxable income subject to certain restrictions of the Income Tax Act.

8 Related party transactions

a) Until the reverse take-over of Millennium by Resource Fund, Resource Fund operated as a partnership with the following related party transactions. On October 26, 1999, the continuing entity became a corporation and is known as Millennium.

General manager

Up to October 26, 1998, the general partner of the Limited Partnership is EnerVest Energy Inc. ("the General Partner"), a private corporation formed under the laws of the Province of Alberta. The General Partner is a wholly-owned subsidiary of EnerVest Resource Management Ltd., a private corporation formed under the laws of the Province of Alberta. The General Partner manages the business affairs of the Limited Partnership, retaining a .001% interest in the Limited Partnership, and is entitled to charge the following:

- a management fee of 7.5% of the net cash flow payable on a partnership basis; and
- reimbursement for all administrative expenses incurred.

MLN

Included in accounts payable at December 31, 1998 is the amount of $nil (1997 - $89,602) which is payable to the General Partner. In 1998, the Limited Partnership paid the General Partner management fees of $2,508 (1997 - $55,689) and reimbursed administrative expenses of $51,792 (1997 - $31,051).

b) After October 26, 1998, the Company paid APF Management Inc. ("APF") $nil as reimbursement for general and administrative costs on a cost recovery basis. Of these amounts, $15,999 is recorded as accounts payable at December 31, 1998.

APF and the Company have common management. The President and Chief Executive Officer and the Executive Vice-President, Chief Operating Officer and Secretary have the same positions in each of the corporations.

9 Subsequent event

In February 1999, Millennium acquired a 5% interest in 16 sections of land in North Central Alberta for approximately $900,000 in cash from an independent exploration and production company. The property did not generate any material revenues to December 1998. The purchase price will be funded from cash flow and the Company's credit facilities.

10 Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

Corporate Information

OFFICERS & DIRECTORS

Robert Burn, Director

David Fischer, Director

Neil Sedgwick, Director

Martin Hislop, Director
President & Chief Executive Officer

Steven Cloutier, Director
Executive Vice President
Chief Operating Officer & Secretary

Bonnie Nicol
Vice President, Operations

Christian Buck
Exploration Manager

Daniel Toews
Controller

LEGAL COUNSEL

Parlee McLaws
Calgary, Alberta

BANKERS

National Bank of Canada
Calgary, Alberta

ENGINEERING CONSULTANTS

Sproule Associates Limited
Calgary, Alberta

TRUSTEE, REGISTRAR & TRANSFER AGENT

The CIBC Mellon Trust Company
Calgary, Alberta

AUDITORS

PricewaterhouseCoopers LLP
Calgary, Alberta

STOCK EXCHANGE LISTING

The Alberta Stock Exchange
Symbol: MLN

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ABBREVIATIONS

bbl	barrel
mbbl	thousand barrels
mcf	thousand cubic feet
mmcf	million cubic feet
bcf	billion cubic feet
tcf	trillion cubic feet
boe	barrel of oil equivalent (10 mcf = 1 bbl)
mboe	thousand barrels of oil equivalent
NGL	natural gas liquid
bbl/d	barrels of oil per day
mcf/d	thousands of cubic feet per day
mmcf/d	millions of cubic feet per day
boe/d	barrels of oil equivalent per day
NPV	net present value
ARTC	Alberta Royalty Tax Credit

1998 Annual Report

MILLENNIUM
ENERGY INC.

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